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Congress of the United States

Joint Economic Committee — Minority

106TH CONGRESS

244 FORD HOUSE OFFICE
BUILDING
WASHINGTON, DC 20515
202-226-4066
FAX 202-225-0505

HOWARD ROSEN
STAFF DIRECTOR

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Contact: Howard Rosen
(202) 226-4066

Rep. Pete Stark Calls The Reagan Supply Side Experiment a Complete Disaster

Experiment Cost American Workers \$2 Trillion Since 1981

WASHINGTON – At a hearing before the Joint Economic Committee today, Ranking Democratic member Congressman Pete Stark called the Reagan Administration's so-called "supply side" experiment a complete disaster which placed, and continues to place, a significant burden on American workers.

As a consequence of the 1981 tax cut, tax receipts not only did *not* rise, as Arthur Laffer and his colleagues predicted, but rather they fell between 1983 and 1986, while government outlays remained relatively unchanged. The result was budget deficits for "as far as the eye could see," which in turn caused the federal debt to triple between 1981 and 1992. Since 1981, American workers have paid approximately \$2 trillion in interest on the debt to finance the failed "supply-side experiment" of the 1980s.

"The only people who have reason to celebrate the Reagan era supply side experiment are Wall Street and foreign bondholders," said Congressman Stark.

Congressman Stark noted the irony that the so-called "supply side experiment" of the 1980s was nothing more than a Keynesian expansion of consumer demand, without any improvement in investment. Despite these tax cuts, or may be because of them, investment in plant and equipment remained flat between 1980 and 1992.

"The key difference between the Keynesian expansion of the 1980s and the others, was that the expansion in the 1980s was accompanied by a real *decline* in living standards. American workers suffered a 7 percent fall in wages between 1980 and 1992. In addition, the 1981 tax cuts – which favored the wealthy – contributed to a considerable worsening in income inequality," said Congressman Stark.

"I believe that the real supply side experiment occurred during the 1990s, not the 1980s," continued Congressman Stark. "Consider the record: We have eliminated the budget deficit and since 1992, investment in plant and equipment has skyrocketed. Productivity growth rates, which averaged 1½ percent annually between 1973 and 1995, have been closer to 3 percent annually since 1995. Just two days ago, the Commerce Department reported that productivity in the non-farm sector grew by 6.4 percent in the fourth quarter of last year. That's an incredible achievement, this far into the economic expansion."

Higher productivity enabled real wages to rise 6 percent since 1992 and the unemployment rate to fall to 4 percent, without igniting inflation. Congressman Stark said, "There is a lot of good news in this economy, but there is still a lot which needs to be done to reverse the damage caused by the failed supply-side experiment of the 1980s."

Congressman Stark concluded, "If we have learned anything over the last 20 years, it is that the best way to

increase tax revenues is to grow the supply-side of the economy -- as we have been doing since 1993 -- not by drastically cutting tax rates, as Arthur Laffer suggested.”